

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 PA-01 PRS-01 AGR-05

FEA-01 ERDA-05 CEA-01 DODE-00 FPC-01 H-02 INT-05 L-03

NSC-05 PM-04 SAM-01 OES-03 SS-15 STR-04 /110 W

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P R 051827Z SEP 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC PRIORITY 1373

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

AMEMBASSY CARACAS

LIMITED OFFICIAL USE SECTION 1 OF 2 SAN JOSE 3779

E.O. 11652: N/A

TAGS: ENRG, EAGR, CS

SUBJECT: ODUBER ANNOUNCES TAKEOVER OF SURPLUS
LAND AND PETROLEUM DISTRIBUTION

1. SUMMARY. PRESIDENT ODUBER IN A BROADCAST TO THE NATION FOLLOWING HIS RETURN FROM A TRIP TO THE U.S. ANNOUNCED THAT COSTA RICAN GOVERNMENT HAS REACHED AGREEMENT WITH BANANA COMPANIES FOR THE TAKEOVER OF 96,000 ACRES OF UNUSED BANANA LAND, AND THAT THE GOVERNMENT ALSO INTENDS TO TAKEOVER PETRO-DISTRIBUTION. COMPENSATION WILL BE PAID IN BOTH CASES. ODUBER ALSO ANNOUNCED THAT ALCOA WILL NOT MAKE USE OF THE CONTRACT LAW UNDER WHICH IT HAS RIGHTS TO DEVELOP BAUXITE AND ALUMINUM PRODUCTION

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IN COSTA RICA, AND THAT, INSTEAD, A LARGE MULTI-

NATIONAL ENTERPRISE MAY BE FORMED TO EXPLOIT COSTA RICAN ALUMINUM POTENTIAL. END SUMMARY

2. PRESIDENT ODUBER, IN A TELEVISION BROADCAST TO THE NATION SEPTEMBER 3, ANNOUNCED TWO IMPORTANT STEPS "IN THE MARCH OF COSTA RICA TOWARD THE RESCUE OF ITS TRUE SOVEREIGNTY AND ECONOMIC INDEPENDENCE." THE FIRST STEP, LONG EXPECTED, IS THAT COSTA RICA WILL PURCHASE 40,000 MANZANAS (96,000 ACRES) OF UNUSED BANANA LANDS ON EXTREMELY FAVORABLE TERMS THAT HAVE NOW BEEN AGREED TO BY THE BANANA COMPANIES. (SEE SAN JOSE 3659 AND PREVIOUS.) THE SECOND STEP, WHICH CAME AS A SURPRISE VEN THOUGH IT HAS LONG BEEN AN OPTION UNDER CONSIDERATION, IS THAT COSTA RICA WILL ASSUME RESPONSIBILITY FOR WHOLESALE DISTRIBUTION OF PETROLEUM PRODUCTS BY PURCHASING THE PHYSICAL ASSETS OF THE REMAINING DISTRIBUTORS.

2. BOTH STEPS ARE DESCRIBED IN THE PRESS AS "NATIONALIZATION" AND WERE SO DEPICTED IN A LOW KEY WAY IN ODUBER'S SPEECH, BUT BOTH TAKE PLACE THROUGH A PROCESS OF NEGOTIATION WITH THE COMPANIES INVOLVED. IN BOTH CASES, HOWEVER, THERE IS AN ELEMENT OF DURESS: A BILL PASSED JUNE 30 BY THE CONGRESS (BUT NOT YET IN FORCE) EMPOWERED THE GOVERNMENT TO NATIONALIZE THE UNUSED LANDS OF BANANA COMPANIES; AND A LAW ENACTED IN 1974 GOVERNING STATE OPERATION OF PETROLEUM REFINING EMPOWERED THE STATE PETROLEUM CORPORATION (RECOPE) TO TAKE OVER DISTRIBUTION OF PETROLEUM PRODUCTS.

3. THE TREND SINCE THE STATE ASSUMED OWNERSHIP OF COSTA RICA'S ONLY PETROLEUM REFINERY HAS BEEN FOR OIL COMPANIES TO PULL OUT OF COSTA RICA. GULF AND CHEVRON SOLD THEIR PRODUCT DISTRIBUTION BUSINESSES TO LOCAL COMPANIES AND ESSO SOLD ITS STORAGE AND DISTRIBUTION FACILITIES TO RECOPE. THE COMPANIES MAINLY AFFECTED BY ODUBER'S ANNOUNCED BUY-OUT PLAN ARE LOCAL SUCCESSORS TO GULF AND CHEVRON, WHICH ARE TWO AFFILIATED COMPANIES ALLEGEDLY BACKED FINANCIALLY BY FUGITIVE U.S. FINANCIER ROBERT VESCO, AND SHELL AND TEXACO. GASOLINE STATION LIMITED OFFICIAL USE

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OWNERS WILL APPARENTLY NOT BE AFFECTED AS RETAIL DISTRIBUTION IS TO REMAIN IN PRIVATE HANDS, BUT THE TEXACO REPRESENTATIVE BELIEVES THAT COMPANY-OWNED SERVICE STATIONS WILL BE PURCHASED AND RESOLD TO PRIVATE CITIZENS. THE ESSENCE OF THE ODUBER PLAN APPEARS TO BE TO ELIMINATE WHAT IS SEEN AS AN UNNECESSARY AND DUPLICATIVE LAYER OF MIDDLEMEN (THE DISTRIBUTORS) BETWEEN THE STATE-OWNED REFINERY THAT PRODUCES THE PRODUCTS AND THE GASOLINE STATIONS THAT

SELL IT TO THE CUSTOMERS. THE MOVE COULD BE CONSIDERED A RATIONALIZATION IN THAT IT IS DIFFICULT TO MAKE A CASE THAT FIVE SEPARATE GASOLINE DISTRIBUTION SYSTEMS SHOULD BE MAINTAINED IN SUCH A SMALL COUNTRY IN ORDER TO SELL THE SAME GASOLINE FROM THE STATE REFINERY UNDER FIVE DIFFERENT TRADE NAMES.

4. THE OIL COMPANIES DO NOT APPEAR TO FACE MUCH OF A LOSS UNDER THE ODUBER PLAN PROVIDED THEY ARE GIVEN FAIR COMPENSATION AS IS EXPECTED. THE TEXACO REPRESENTATIVE STATES, CONFIDENTIALLY, THAT HIS COMPANY, WHICH IS BELIVED TO BE THE MOST EFFICIENT MARKETER IN COSTA RICA, HAS JUST BARELY BEEN BREAKING EVEN ON THE OVERALL MIX OF PRODUCT SUPPLIED BY RECOPE (GASOLINE, DIESEL OIL, FUEL OIL, KEROSENE, ETC.) AT THE ALLOWABLE MARGINS SET BY THE GOVERNMENT. THEY HAVE BEEN MAKING PROFITS ON AVIATION FUEL AND ON LUBRICANTS - PRODUCTS WHICH THEY ARE ALLOWED TO IMPORT DIRECTLY RATHER THAN BUY THROUGH RECOPE - BUT THEY MAY BE ABLE TO RETAIN THEIR BUSINESS IN THESE PRODUCTS AS IT IS NOT CLEAR THAT THE DECREE REQUIRES SELLING THOSE BUSINESSES. THE COMPANIES ARE STILL STUDYING THE NEW DECREE, BUT THE TEXACO REPRESENTATIVE BELIEVES THAT THEY WILL DECIDE TO GO ALONG WITH THE GOVERNMENT'S WISHES WITHOUT CREATING ANY CONTROVERSY PROVIDED THEY ARE OFFERED A FAIR PRICE. THE PRICE TO BE PAID BY THE GOVERNMENT IS TO BE SET BY NEGOTIATION BETWEEN THE DISTRIBUTORS AND RECOPE, BUT IS NOT TO BE ANY HIGHER THAN AN AMOUNT ESTABLISHED BY APPRAISERS OF THE INCOME TAX OFFICE OR A NATIONAL BANK.

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P R 051827Z SEP 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC PRIORITY 1374

INFO AMEMBASSY GUATEMALA

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5. THE FACT THAT TEXACO IS NO LONGER MAKING MONEY ON ITS DISTRIBUTION BUSINESS SUGGESTS THAT LESS EFFICIENT DISTRIBUTORS WERE PROBABLY LOSING MONEY, WHICH IN TURN SUGGESTS A POSSIBLE EXPLANATION FOR THE GOVERNMENT'S SUDDEN SURPRISE MOVE TO TAKE-OVER DISTRIBUTION. THE MOVE MAY BE INTENDED AS A BAIL-OUT FOR THE TWO ALLIED COSTA RICAN FIRMS WHICH PURCHASED THE CHEVRON AND GULF INTERESTS. THE OWNER OF GHCORD OF THESE TWO COMPANIES, ROGELIO SOTELA, IS BELIEVED TO HAVE RECEIVED FINANCING FOR THE PURCHASE (WHETHER ON A DEBT OR EQUITY BASIS) FROM VESCO AND IS ALSO KNOWN TO BE CLOSELY TIED TO FORMER PRESIDENT FIGUERES. A PURCHASE BY RECOPE WOULD NOT ONLY GET SOTELA AND HIS ASSOCIATES OUT OF WHAT LOOKS LIKE A MONEY-LOSING BUSINESS BUT MIGHT ALSO

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OFFER THEM A SUBSTANTIAL CAPITAL GAIN AS THEY ARE BELIEVED TO HAVE BOUGHT OUT CHEVRON AND PERHAPS ALSO GULF AT BELOW BOOK VALUE AND THE PRICE TO BE OFFERED BY RECOPE, IF BASED ON AN APPRAISAL OF CURRENT VALUE OF ASSETS, IS LIKELY TO BE SUBSTANTIALLY HIGHER. IF THIS ANALYSIS IS CORRECT, THEN ODUBER WOULD BE IN A POSITION OF HELPING THESE INTERESTS, WHILE AT THE SAME TIME BURNISHING HIS OWN IMAGE AT HOME AND ABROAD AS A NATIONALIST.

6. ODUBER SPOKE VERY CALMLY AND DELIBERATELY SEEMINGLY NOT SEEKING TO AROUSE HIS COSTA RICAN AUDIENCE BUT HE DID NOT FAIL TO USE SUCH FASHIONABLE EXPRESSIONS AS "ECONOMIC IMPERIALISM" AND TO ALLEGE THAT FOREIGN INTERESTS HAVE INTERFERED IN COSTA RICA'S POLITICS AND "SUCTIONED OFF OUR RICHES, OUR NATURAL RESOURCES." IN A SEPARATE SUBSEQUENT STATEMENT,

FOREIGN MINISTER FACIO EMPHASIZED THAT THE UNUSED BANANA LANDS WERE PURCHASED THROUGH AGREEMENT WITH THE COMPANY INVOLVED AND THAT THE ELIMINATION OF INTERMEDIARIES IN THE GASOLINE BUSINESS WILL ALSO FOLLOW ALL THE CORRECT LEGAL PROCEDURES. FACIO SAID THAT THE NATIONALIST MEASURES SHOULD NOT PROVOKE ANY FEAR AMONG FOREIGN OR DOMESTIC INVESTORS.

7. THE TAKEOVER OF UNUSED BANANA LANDS, UNLIKE THE OIL DISTRIBUTION TAKEOVER, HAS ALREADY BEEN ACCEPTED BY THE PRIVATE INTERESTS INVOLVED. UNITED BRANDS HAS, IN EFFECT, DECIDED TO PROTECT ITS BANANA PRODUCING BUSINESSES HERE BY GIVING OVER TO THE GOVERNMENT AT VERY FAVORABLE PRICES ITS UNUSED ACREAGE. THE AVERAGE PRICE TO BE PAID FOR THE 40,000 MANZANAS OF LAND (INCLUDING 10,000 HECTARES BEING GIVEN FREE) IS 300 COLONES PER MANZANA (ABOUT \$15 PER ACRE). AS ODUBER SAID IN HIS SPEECH, "TRULY THIS IS A RIDICULOUS PRICE AS IT INVOLVES SOME OF THE BEST AGRICULTURAL LAND IN THE COUNTRY." MUCH OF THE LAND IS SAID TO BE DEVELOPED OR SEMI-DEVELOPED AND THE PURCHASE PRICE INCLUDES FACILITIES AND IMPROVEMENTS. THE LAND TO BE TURNED OVER TO THE STATE LIMITED OFFICIAL USE

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BY UNITED BRANDS IS LOCATED IN THE SOUTHERN PART OF COSTA RICA. SOME IS ON THE PACIFIC SIDE AND SOME ON THE CARIBBEAN SIDE. STANDARD FRUIT HAS MUCH LESS UNUSED LAND, ONLY SOME 1,000 MANZANAS, WHICH IT PROPOSES TO TURN OVER TO A COOPERATIVE OF PERSONS LIVING IN THE AREA.

8. SUCCESSFUL NEGOTIATION OF THE LAND TAKEOVER REPRESENTS A REAL TRIUMPH FOR ODUBER, ALTHOUGH NOT AN UNEXPECTED ONE AND NOT ONE THAT WAS SO DIFFICULT TO ACHIEVE. ACQUISITION OF PETROLEUM DISTRIBUTION FACILITIES WILL MAKE VERY LITTLE PRACTICAL DIFFERENCE TO THE COUNTRY, BUT ACQUISITION OF 96,000 ACRES OF GOOD UNUSED LAND PUTS THE GOVERNMENT IN A POSITION TO RESOLVE SQUATTER PROBLEMS, SETTLE THE LANDLESS, AND INCREASE OVERALL AGRICULTURAL OUTPUT. IT IS NOT A MERE NATIONALIST AND POPULIST GESTURE BUT OFFERS REAL POSSIBILITIES FOR IMPROVING THE LOT OF THE RURAL COSTA RICAN, REDUCING SOCIAL TENSIONS, AND INCREASING AGRICULTURAL OUTPUT AND SELF-SUFFICIENCY. YET, MOST OF THE BENEFITS ARE POTENTIAL, NOT ACTUAL, AND THEIR ACHIEVEMENT WILL REQUIRE A DEGREE OF ORGANIZATION AND EFFORT BY THE GOVERNMENT THAT ONE IS RELUCTANT TO PREDICT ON THE BASIS OF PAST PERFORMANCE. THE FACT THAT ONE OF THE WEAKEST AND MOST MIS-

DIRECTED INSTITUTIONS OF THE COSTA RICAN GOVERNMENT,
THE LAND INSITUTE (ITCO), WILL BE IN CHARGE OF
SETTLING PEASANTS ON THE LAND ALSO RAISES DOUBTS
ABOUT THE CHANCES FOR SUCCESS, UNLESS THE GOVERNMENT
FOLLOWS THROUGH SERIOUSLY ON AN EFFORT, NOW UNDER
REVIEW, TO REFORM ITCO.

9. IN A PRACTICAL SENSE, AN EVEN MORE HOPEFUL ASPECT OF
THE LAND DEAL WITH UNITED THAN THE PEASANT SETTLE-
MENT ASPECT, IS THE ARRANGEMENT FOR A JOINT VENTURE
BETWEEN COSTA RICA AND UNITED BRANDS TO PRODUCE
AFRICAN OIL PALMS ON SOME 10,000 MANZANAS OF LAND
IN THE SIXAOLA AREA (SOUTH OF LIMON TOWARD THE
PANAMANIAN BORDER). UNITED WILL OWN 25 PERCENT OF
THIS VENTURE, THE GOVERNMENT (CODES) 25 PERCENT,
AND 50 PERCENT WILL BE OWNED BY PRIVATE COSTA RICAN
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
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Disposition Date: 28 MAY 2004
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